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C O R R E C T E D C O P Y (CORRECT MCN)

E.O. 12958: DECL: 05/21/2017
TAGS: [ECON](#) [PGOV](#) [PREL](#) [VI](#)
SUBJECT: KOSOVO: DRAFT KPC EARLY RETIREMENT LAW: FISCALLY
IRRESPONSIBLE BUT POLITICALLY SENSITIVE

Classified By: Chief of Mission Tina Kaidanow for reasons 1.4 (B) and (D).

¶1. (C) Summary. The initial draft Kosovo Protection Corps (KPC) early retirement law is a fiscally irresponsible, poorly-written piece of legislation that potentially provides beneficiaries with life-long pensions and free primary health all KPC members who would not be eligible to join the Kosovo Security Force (KSF). PISG officials claim that the direct costs to implement this legislation are reasonable and not overly burdensome for the Kosovo Consolidated Budget (KCB), but they acknowledge that they cannot estimate its indirect costs, which appear to be significantly higher. This legislation surfaced immediately after the Provisional Institutions of Self-Government's (PISG) intense negotiations with the International Monetary Fund (IMF) on a Letter of Intent (LOI) regarding Kosovo's post-status fiscal and economic policies, with particular emphasis on the PISG's budget-busting laws for social welfare spending. Mid-level PISG officials acknowledge that the KPC early retirement law should be more fiscally prudent, but note that it is a politically sensitive issue with support from senior-level Kosovo government officials and other interest groups. USOP will engage with the PISG to take a sensible approach to this legislation and emphasize that fiscal irresponsibility could put at risk 2-3 billion euros in donor support for Kosovo.
End Summary.

KPC DRAFT LAW PROVIDES A WORK-FREE LIFE FOR RETIREES

¶2. (C) On May 17 Econoff met with Eshref Shabani, Permanent Secretary of the Ministry of Labor and Social Welfare (MLSW), and Fadil Rracaq, Head of the MLSW Legal Office, to discuss the KPC early retirement law. Shabani noted that the Ahtisaari final status proposal requires legislation to facilitate the demobilization, reintegration and transformation of the KPC into the new, 2500-member Kosovo Security Force (KSF). Shabani explained that the purpose of the early retirement law is to provide monthly pensions and the following benefits for KPC members not eligible to join the KSF and their families, including college-age dependents

18-24 years old: free primary medical care; preferential treatment for hiring in the public sector; preferential treatment to enter educational institutions and for scholarships, dormitories and other student facilities; employment training programs; tax credits for self-employment; exemptions from property taxes; and allowing the time spent as a member of the Kosovo Liberation Army to be counted as professional experience applicable towards retirement from the KPC or other public sector jobs.

¶ 13. (C) Rracaj estimated that 1,500-2,000 KPC members will be eligible for pensions under the early retirement law. The two officials said that KPC members must be at least 40 years old to receive benefits, but listed as additionally eligible those persons under 40 who were discharged from the KPC, as well as KPC active members who are unable to obtain employment based on their professional qualifications. With regard to monthly pension payments, colonels and lieutenant colonels would receive 200 percent of their basic salaries; majors, captains and sergeants would obtain 150 percent of their basic salaries; and corporals and privates would receive 100 percent of their basic salaries. Rracaj indicated that there would be a special provision in the law for generals to determine their salaries and pensions. Shabani acknowledged that there are no strict criteria to receive the pensions and benefits, or sunset provisions which limit the eligibility time for retirees. Econoff noted that the eligibility criteria for the law offers no incentive for retirees to work.

¶ 14. (C) Shabani said KPC retirees should not receive other pensions or social welfare services, with the exception of those who are eligible under the KLA Veterans law and the KLA War Invalids law. Rracaj calculated that the direct costs to

implement the legislation would be 3.2 million euros and said the the law would be funded by the KCB and the five percent contribution paid for by the KPC to the Kosovo Pension and Savings Trust (KPST) for each of its members. Both MLSW officials asserted that the direct costs were not an overly buQ?#.wNQgaERATION OF POSSIBLE BUDGETARY CHALLENGES OR ECONOMIC GAINS FOR KOSOVO POST-STATUS

¶ 15. (C) Econoff told MLSW officials that the law was a fiscally irresponsible, poorly written piece of legislation that would negatively impact the KCB. He emphasized that it was important the PISG come up with an estimate for the indirect costs so that a full, accurate assessment of the draft law can be conducted, and highlighted that many articles required more clarity, particularly the wording on inspection of pensions, restrictions of early pensions, suspension of early pensions, integration of early retirement, and supervision of the implementation of the law.

He also expressed concern that KPC staff who were KLA members would receive multiple pensions. Econoff noted that the enforcement provisions were weak and would not provide strong deterrents to stop possible violations of the law.

¶ 16. (C) Econoff reminded the MLSW that the International Monetary Fund (IMF) had recently visited Kosovo to negotiate a Letter of Intent (LOI) on economic and fiscal policies for the post-final status period and noted the IMF's concern that social welfare spending - general pension law, labor law, health insurance law, KLA Veterans law - provided overly generous benefits which created significant, unsustainable costs for the KCB. ItQK9Qt the expected post-status donors conference, which is estimated to bring Kosovo 2-3 billion euros, and encouraged them to consider other economic and fiscal challenges Kosovo would encounter in the future, including post-status transition costs, the formation of new ministries and other government agencies, and the negative economic consequences of UNMIK's departure.

SUGGESTIONS TO IMPROVE LEGISLATION

¶ 17. (Cm`_cTts to control indirect costs. Econoff proposed that the MLSW redraft the legislation to provide protection to KPC retirees in accordance with EU Directive 1998/59/EC on collective

redundancies, which requires that greater protection be afforded to all workers in the event of collective redundancies while also taking into account the need for a balanced economic and social methodology of calculating redundancy payments. For example, redundancy payments could be based on length of service and rank. Econoff also suggested that the PISG create a database of all potential beneficiaries that would be externally audited and then form the basis for an independent technical assessment of the law's fiscal costs and sustainability, which would be similar to the IMF's idea for the KLA Veterans law during the recent LOI negotiations.

SENIOR LEVEL PISG OFFICIALS SUPPORTING THIS LEGISLATION

¶8. (C) Shabani and Rracaj acknowledged that the legislation needed to be reviewed carefully by the PISG and they were fully aware of IMF concerns about social welfare spending. Shabani said that he personally agreed with the Econoff's concerns about the legislation and liked some of his

suggestions to improve the draft law, but noted that senior (MkyAQ:t Kosovo Assembly to pass this legislation and asserted that the international community will have to persuade the PISG to make it more fiscally prudent, given the political sensitivities regarding the KPC transformation to the KSF.

¶9. (C) Comment: It is no surprise that the draft KPC early retirement law surfaced immediately after the IMF mission concluded its negotiations with the PISG and noted its concerns with social welfare spending, particularly the KLA Veterans law. For its part, the post-status Kosovo government is going to have to learn how to be a responsible steward of scarce resources by doing something it has never had to do: stand up to loud, popular and potentially menacing domestic constituencies without the international community's skirts to hide behind. We believe, however, that the Kosovars will "reluctantly" back off on many of the provisions of this law once faced with concerted international opposition, placing the blame on internationals for threatening to withhold donor funding. End Comment.

KAIDANOW